August 8, 2000

TO: All Rural Development Employees

FROM: David J. Villano ***(Signed by David J. Villano)***
Deputy Administrator
Single Family Housing

SUBJECT: Moratorium Policy

At a recent Partnership for Successful Homeowners meeting, a discussion was held regarding administration of moratoriums by the Centralized Servicing Center (CSC). Some participants indicated that the policy for administering moratoriums had changed since conversion to centralized servicing.

After researching 7 CFR Part 3550 and Handbook 2-3550, we worked closely with CSC staff in the Special Assistance Section to assure that moratoriums are being processed in compliance with existing regulations.

Borrowers meeting eligibility requirements should not be discouraged from applying for a moratorium. However, they should be thoroughly counseled about their responsibilities during and after the moratorium, such as:

- pay real estate taxes and maintain hazard insurance on the property
- notify CSC when circumstances change and they are able to resume payments
- pay an amount equal to the suspended payment toward unexpected expenses if the moratorium is granted for medical/funeral expenses or damage to the dwelling

CSC will ensure that borrowers approved for a moratorium are advised that the moratorium may be provided for up to 2 years. Continuation of the moratorium will be based on periodic reviews conducted by CSC to determine if the circumstance for which the moratorium was granted still exists. Borrowers will not have to reapply to extend the moratorium. The borrower will be notified of the first review date in the letter advising them that their request for moratorium assistance is approved.

Additionally, borrowers should be informed about accumulated interest on the account while they are not making payments; and, that upon cancellation or expiration of the moratorium, arrangements must be made to pay the account current. If the borrower is unable to bring the account current immediately, they will be advised by CSC of all available options to resolve the arrearage including reamortization and forgiving accrued interest.

EXPIRATION DATE:
August 31, 2001

FILING INSTRUCTIONS:
Housing Programs

June 20, 2000

TO: Rural Development
State Directors

ATTN: Program Directors, Program Managers, Rural Housing
Chiefs, Community and Business Programs Chiefs

FROM: James C. Kearney
Administrator
Rural Housing Service

SUBJECT: Debarment/Suspension Guidance for Field Office Staff

In response to a need for adequate documentation of screening debarment/suspension identified in a 1999 Management Control Review, guidance is hereby provided. State Directors should insure that all loan approval officials, contracting specialists and staff involved with the acceptance of outside contractors pre-screen them for debarment histories using reliable resources. As further described in RD Instruction 1940-M, § 1940.606(b), “It is strongly recommended that the loan/grant processing official document the case file regarding the date of the Nonprocurement Debarment List checked.” The easiest and most reliable resource to use is the General Services Administration’s Web site at http://epls.arnet.gov **(Please note the new address).** In addition, the following Rural Development issuances contain the basic guidance that pertains to debarment/suspension activities:

RD Instruction 1940-M Governmentwide Debarment and Suspension (Non-procurement) and Requirements for Drug-free Work Place (April 11, 1989)

RD Administrative Notice No. 3525 Updated Guidelines for Submitting Debarment and Suspension Requests to the National Office (March 24, 2000)

EXPIRATION DATE:
September 30, 2000

FILING INSTRUCTIONS:
Administrative/Other Programs

The current versions of all debarment regulations are available on the Rural Development Web site at http://rdinit.usda.gov/regs. A central point to be made in all debarment/suspension training is that debarment is an effective management tool available to Rural Development to protect its borrowers, customers and clients. It is to be used judiciously both as a deterrent and remedy to prevent waste, fraud and abuse in our operations in the field. The costs of the fraudulent actions of irresponsible builders and contractors not only waste precious Agency resources, but also tarnish our mission area's reputation for providing quality services to rural housing, businesses, utilities and community facilities. Everyone needs to do their part to prevent the wrong people from doing our work. A vigilant field staff familiar with debarment policies and procedures will help reduce our exposure to these risks in today's business world.

Rural Development's administrator of all debarment/suspension activities is Phil Aravanis, Program Support Staff, Rural Housing Service. He can be reached at (202) 690-4492, for specific debarment/suspension matters requiring consultation.

March 20, 2000

TO: State Directors
Rural Development

FROM: Jill Long Thompson
Under Secretary
Rural Development

SUBJECT: RHS Multi-Family Housing Enforcement Program - Request for State Staff Participation

As discussed with you during the recent Rural Development State Director policy meeting, the Rural Housing Service (RHS) Multi-Family Housing (MFH) programs are subject to vulnerabilities from program fraud and abuse. The RHS/Office of Inspector General (OIG) Task Force that developed a team approach to reviewing program participants was beneficial in using the best of each Agency's abilities to further the goal of detecting fraud and abuse. We are building upon that success by improving cooperation and coordination between agencies and departments involved in the detection and enforcement process. Additionally, we will provide for a standing team of staff members trained and able to review complex problem or multi-state program(s) participants, or to assist states that may lack the expertise in enforcement matters.

To recap our previous discussions, the following is our six point MFH Enforcement Program:

1. ***Coordinate more closely with the OIG Audit and Investigation*** in selecting cases to be reviewed through development of an Advisory Committee;

2. ***Establish a team of National and Field Office RHS staff*** trained in audit and program fraud detection techniques to conduct reviews of particularly difficult or multi-state cases. The team would recommend actions to correct the deficiencies including regulatory sanctions or legal actions, or referral to state or local enforcement agencies;

3. With the participation of OIG and the Office of General Counsel (OGC), ***establish a liaison with the Washington, D.C. office of the Department of Justice (DOJ)*** to encourage acceptance of MFH cases by DOJ for prosecution and provide and receive training concerning programs and procedures;

EXPIRATION DATE:
March 31, 2001

FILING INSTRUCTION:
Preceding Housing Programs

4. ***Develop coordination with HUD's Office of Enforcement*** to facilitate reviews of common program participants;

5. ***Pursue statutory changes*** to improve the Department's ability to enforce program regulations; and

6. ***Develop training for field staff*** in the review, determination and evaluation of fraud and abuse, and in conjunction with OGC, training on the legal process to bring action against parties who abuse the program.

Recent Accomplishments:

- In October of 1999, National Office MFH program and OIG Audit staff, along with an Assistant United States Attorney (AUSA) experienced in working with the Agency, made a presentation to a national gathering of Alternative Civil Enforcement AUSAs. The presentation described the RHS MFH programs, the joint RHS/OIG initiative, and a successful case study of the criminal and civil prosecution of a RHS MFH borrower in Washington State. The purpose of the presentation was to familiarize the AUSAs with the MFH program and to encourage them to accept more cases for action when presented by OIG and RHS.

- National Office MFH program staff have met with representatives of HUD's Office of Enforcement to discuss mutual issues. In particular, the possibility of joint action against a nation-wide management agent/borrower operating in both RHS and HUD programs was discussed.

- In connection with the preceding, RHS has identified possible problems concerning an owner/manager that it considers significant and in need of further investigation and review. The case will likely be presented as the first new case for review by the RHS/OIG Advisory Committee. If accepted, RHS staff will need to be assigned to work with OIG on the review and coordinate the review with HUD.

Next Steps:

- Establish the Field and National Office Review Teams to begin audit and reviews of potential problem cases.

- Work with OGC to establish a system to develop quality criminal and civil cases, working in conjunction with the Department of Justice.

- Continue coordination efforts with both HUD's Office of Enforcement and the Department of Justice.

Request for Field Staff Participation

As mentioned previously, it is our goal to establish a team of National and Field Office staff trained in audit and review procedures that can be deployed to conduct reviews of borrowers or management agents about which there is a suspicion of program abuse. These teams may work closely with OIG Audit and Investigation staff in the implementation of the audits and reviews. The individuals would receive additional training in conducting reviews and audits by National Office MFH Program and OIG staff. Additionally, OIG Audit has offered the opportunity for a limited number of RHS staff to attend their OIG Audit Academy for intensive training in the government audit process.

We are asking you as State Directors to offer the services of one of your MFH staff to participate in this process. Candidates for the team should be experienced MFH staff that are knowledgeable of MFH procedures and the ability to conduct thorough research and produce clear, concise documentation of findings. We are projecting that we will need approximately six to ten field staff available to participate in this effort. They would be called upon as needed for specific reviews or audits after receiving training. It is anticipated that such reviews may take between 20 to 30 percent of their time and will involve some travel. Travel expenses for team activities will be paid for from RHS National Office funds. National Office staff will be part of the review teams and will coordinate the effort with the OIG.

We understand that your staff resources are tight. However, we also suggest that the teams described will be able to assist you in addressing complex MFH problems in your state also, thereby freeing up your existing MFH staff resources to concentrate on the more day-to-day issues. In fact, we encourage you to provide the MFH program staff with those situations that you believe warrant a more detailed review so that such cases may be considered for review by the teams. Let me assure you that referrals of perceived problems will not be considered a negative, and in fact would reflect that you are taking proactive steps to improve your MFH program performance.

If you have qualified MFH staff that are interested and available for participation on the MFH Enforcement Program review teams, please complete the attached Expression of Interest form. Please return completed Expressions of Interest to Patrick Sheridan, Assistant Deputy Administrator, Multi-Family Housing, Stop 0780 in the National Office. If you or interested staff have any questions, please contact Mr. Sheridan at (202) 720-1609.

Attachment

Expression of Interest to Serve on the Multi-Family Housing
Enforcement Program Review Team

Name: ____

Position in Agency: _____________________________________

Time working in the MFH Program: _______________________

Please provide a description of experience conducting Supervisory Visits, Internal Reviews, Audits or other examinations of borrower, management or program operations:

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______________________________ ______________________________
Signature of Candidate State Director Approval

_________________ _________________
Date Date

March 2, 2000

TO: All State Directors
Rural Development

ATTN: Rural Housing Program Directors

FROM: James C. Kearney
Administrator
Rural Housing Service

SUBJECT: Collection of Tax Service Fees on Leveraged Loans

The issue has been raised about the collection of a tax service fee on a loan where Rural Development and another lender are participating in making the loan to a customer. Concern has been expressed about Rural Development collecting a tax service fee ($95.00 for each loan) and the other lender collects the same fee. There should not be the collection of two fees for coverage of the same property if this can be avoided by Rural Development and the other lender.

It is the policy of Rural Development to collect the $95.00 tax service fee on all leveraged loans. This policy is based on the following:

- Rural Development is customarily in a subordinate lien position and our security position is more at risk.
- Rural Development is usually the lender with the largest portion of the total loan.
- Rural Development's amortization period is customarily for the longest term.

Exceptions to the above policy may be agreed to with the other leveraged lender under the following conditions:

- The prior lien holder may collect the tax service fee and perform escrow services and Rural Development will not, provided the tax service vendor agrees in writing to cover the life of both loans. In addition, the vendor agrees to make annual searches and report the same to the Centralized Servicing Center in St. Louis, Missouri.

EXPIRATION DATE: FILING INSTRUCTIONS:

We believe the collection of the tax service fee and the performance of escrow services on the loans by Rural Development is the best solution for handling this issue. We hope this guidance provides the flexibility and framework for you to continue the expansion of leveraging across the nation.

If you have questions please contact Tom Herron, Branch Chief, Escrow Operations Branch at (314) 206-2515 for escrow related questions and Betsy Fletcher, Branch Chief, Loan Origination at (202) 720-1486 for origination questions related to leverage loan processing.

February 2, 2000

TO: State Directors, Rural Development

ATTN: Community Facilities Program Managers

FROM: James C. Kearney
Administrator
Rural Housing Service

SUBJECT: Community Facilities Loan and Grant Programs

This issuance is intended to provide guidance on various aspects of the Community Facilities (CF) loan and grant programs.

1940-L Spreadsheets

It has come to our attention that some of the Community Facilities Loan and Grant allocation spreadsheets attached to the advance copies of RD Instruction 1940-L may provide incorrect allocations. We have attached the correct spreadsheets.

Grant Processing

All CF grant applications must be submitted to the National Office to compete for reserve funding by March 1, 2000. Any State submitting applications must either have utilized all of their CF grant allocation or be unable to fund any of the remaining unfunded CF grant applications. The National Office selection process will be based on the scores of the applications. Therefore, someone will review these scores for consistency. Pease be sure to send in the scoring documentation with the requests. Funds will be pooled on April 14, 2000.

The process will be repeated in the second half of the year. Applications will be submitted to the National Office by July 14, 2000. Pooling will take place on August 18, 2000.

Urbanized Area Identifier

The Rural Community Development Initiative is required by statute to follow the rural definition under the Rural Community Assistance Program provisions in the Fiscal Year 2000 Appropriation Act. This definition refers to urbanized areas. The applicants will be directed to contact the State Offices to determine if a recipient organization is located in an eligible rural area. State Office personnel should use the Urbanized Area Identifier CD provided to the State Office Rural Business Service program managers to make this determination. Please contact Beth Jones, (202) 720-1498, if you do not have access to the Urbanized Area Identifier CD.

Guide 26 Attachment

An attachment to guide 26 of RD Instruction 1942-A, "Community Programs Project Selection Criteria," should be included with each request submitted to the National Office for reserve funds. It should also be included with the paperwork for each project after the letter of conditions is signed. This information helps us identify the types of projects CF is funding, the priority of the project, and identify any leveraging sources. A copy is attached.

Outreach

Success of the CF programs are dependent on continuous outreach to locate and develop potential projects for existing and future funding. Exceptional outreach efforts are required in all States to efficiently utilize the Community Facilities funding that is available. All Rural Development employees must become familiar with our authority to make loans and grants for all types of essential community facilities. One measurement of the success of outreach efforts is the receipt of a sufficient number of viable applications for a broad spectrum of facilities needed in rural areas. A second measure of success is the development of a backlog of projects that are developed for submission to the National Office for reserve funding.

Community Programs Reorganization

Community Programs (CP) administers the CF Direct Loan program, the CF Guaranteed Loan program, the CF Grant program, and the Rural Community Development Initiative. CP personnel have been assigned to the following areas:

Office of the Deputy Administrator
James C. Alsop, Deputy Administrator
Dorothy Robinson, Secretary

Guaranteed Loan Division

C. Barth Miller, Director
Mel Padgett, Senior Loan Specialist
Specialist
Jennifer Barton, Senior Loan Specialist
Specialist
Steve Wetherbee, Senior Loan Specialist
Specialist
Ruth Ann Morrison, Senior Loan Specialist
Specialist
Dan Spieldenner, Senior Loan Specialist
Tracy Proctor, Secretary

Direct Loan and Grant Division

Chad Parker, Director
Andrea Barnett, Senior Loan
Joseph Ben-Israel, Senior Loan
Sharon Douglas, Senior Loan
Yoonie MacDonald, Senior Loan
Beth Jones, Senior Loan Specialist
Robert Bogan, Secretary

These issues are provided as guidance only and do not supersede existing regulations.

The Community Programs staff in the National Office is available to provide any assistance you may need. You may contact Mr. C. Barth Miller, Director, Guaranteed Loan Division, (202) 720-1505, or Mr. Chad Parker, Director, Direct Loan and Grant Division, (202) 720-1502, with any questions or requests.

Attachments (Not available on the Internet)

February 28, 2000

TO: Rural Development
State Directors

ATTN: Rural Housing Program Directors,
Program Loan Cost Coordinators and
Contract Program Managers

FROM: James C. Kearney
Administrator
Rural Housing Service

SUBJECT: FY 2000 Program Loan Cost Expense Funds for New Construction Multi-Family Housing Appraisals

Funding from the non-recoverable FY 2000 Program Account for new construction Multi-Family Housing (MFH) appraisals is now available. Because of budget constraints this year, these funds need to be requested on an "as-needed" basis, in a process identical to requests for rehabilitation/prepayment MFH appraisals this year. Those states requiring new construction appraisals (corresponding to new projects authorized by the FY 2000 Notice of Funding Availability) should contact Steve Jorgensen at (202) 720-1620. Please limit your requests to those appraisals that can be obligated within a week or two. You will therefore have to make multiple requests during the rest of the year to fund specific appraisals as they are needed and can be obligated. Your cooperation in adhering to this procedure will allow us to make unobligated funds available to more states than we could otherwise.

State Office Program Loan Cost coordinators should be the point of contact for questions within their state. If these coordinators have questions concerning this memorandum, they should contact Carl Muhlbauer, Program Support Staff, at (202) 690-2141.

EXPIRATION DATE: September 30, 2000

FILING INSTRUCTIONS:
Administrative/Other Programs

January 24, 2000

TO: All Rural Development Employees

ATTENTION: Staff Working With Single Family Housing

FROM: James C. Kearney
Administrator
Rural Housing Service

SUBJECT: Recommendations from the Task Force on Single Family Housing (SFH)
Foreclosure Avoidance

As you may know, since the transfer of accounts to the Centralized Servicing Center (CSC), numerous conversion related issues have had to be addressed which have affected the overall performance of the loan portfolio. While many improvements have occurred, serious challenges remain in the area of risk management. In Fiscal Year 1999, the CSC accelerated a large number of accounts that were in serious default since conversion. These accelerations were in addition to each State's normal number of liquidations to take place throughout the year. The CSC and field offices have worked together to ensure personal contact has been made with a customer prior to acceleration of an account. This ensures that all available assistance has been provided to our customers should liquidation become necessary. The focus now becomes reducing the Government's risk through timely foreclosure processing, encouraging borrowers to sell their property prior to the foreclosure sale and timely disposition of Real Estate Owned (REO) property.

Last year, field office staff, CSC; and National Office representatives met to identify methods and share ideas which could reduce the impact this potentially large number of foreclosures will have on all States. Prior to the meeting, Program Directors as well as the National Association of Credit Specialists and National Association of Support Personnel were asked to provide feedback about related issues they were concerned with as well as any ideas and methods they were using in their State. The response was overwhelming with several great ideas submitted. We sincerely appreciate all the input, much of which was used by the Task Force in developing their recommendations.

EXPIRATION DATE:
January 31, 2001

FILING INSTRUCTIONS:
Housing Programs

Attachment 1 is a summary of the “Foreclosure Avoidance Task Force Recommendations. Attachment 2 is a list of “Best Practices” used by states to address the foreclosure avoidance topics as well as acquisition of Real Estate Owned (REO) properties. These ideas submitted by states may assist you in addressing recommendations from the Task Force. Attachment 3 is a sample letter to be used by Field Offices when servicing SFH accounts. A copy of the minutes from this meeting, as well as all proposed recommendations have been sent to State Offices under separate cover.

While some of these specific recommendations can be implemented immediately, others may require regulatory and handbook changes or waivers. Attached are the broad topics discussed and instructions for implementing some recommendations from the Task Force immediately.

Attachments

Attachment 1

FORECLOSURE AVOIDANCE TASK FORCE RECOMMENDATIONS

TOPIC 1

Improve the servicing assistance for first year borrowers.

RECOMMENDATION

Enhance the field office role in servicing for first year loans and clarify Field Office and CSC roles.

IMPLEMENTATION

To ensure that our customers become successful homeowners the servicing of accounts in their first year is extremely critical. For this reason, the primary responsibility for servicing loans during their first twelve months lies with the field office that originated the loan. CSC shares in this responsibility; however, it is critical for our customers to recognize that the local field office still has a vested interest in their success and will provide that critical supervision needed. This servicing assistance may include contacting the customer shortly after the loan has closed to reinforce payment expectations and confirm the roles of field office personnel and CSC. Details of the process recommended by the task force were issued in a letter dated September 10, 1999, and will be incorporated into HB-1-3550, "Direct Single Family Housing Handbook." Attachment 3 is a sample letter that may be used to contact first year borrowers who are past due on their mortgage payments.

TOPIC 2

Clarify the role of field offices in loan servicing and enhance servicing procedures for all delinquent customers.

RECOMMENDATION

Field offices and CSC should work in concert to assist customers in becoming successful homeowners. The field office should make a personal contact with customers who are delinquent on payments or need servicing assistance if CSC is unable to contact the customer.

IMPLEMENTATION

All field offices have the authority to provide additional servicing assistance to customers. When CSC has been unable to make a personal contact with the customer, field offices will be sent a task to attempt personal contact. To fully implement this recommendation, the handbook is currently being revised to provide specific guidance on the personal service review by field offices.

TOPIC 3

Develop a more pro-active strategy for encouraging borrower disposition of property after acceleration. Develop a strategy for timely foreclosure processing.

RECOMMENDATION

Field offices should take a more active role in encouraging the customer to voluntarily dispose of property before a foreclosure sale. Recommendations include:

- Clarification of Field Office and CSC roles.
- Revision of the appraisal policy. (Further analysis of this recommendation is necessary prior to revising the regulations and handbook.)
- Partnering with various groups and nonprofits to avoid a foreclosure sale.
- Modifying debt settlement policies to provide relief when a customer cooperates with the Agency and sells the property to avoid a foreclosure. (Further analysis of this recommendation is necessary.)
- Utilize private attorneys, where applicable, to expedite the foreclosure process.
- Utilize resources within the state to process foreclosures.

IMPLEMENTATION

All field offices are encouraged to notify customers whose accounts have been accelerated and encourage the customer to sell the property. Taking this action may avoid a foreclosure sale and permit the customer to recover any equity they may have in the property. This may include allowing the customer to post pictures of the property in the local office.

Field offices should utilize partnerships with various groups such as nonprofits, Community Development Corporations, Housing Finance Agencies, etc. to determine if they may provide assistance to the family to retain the property or provide assistance to another family to purchase the property.

To expedite the foreclosure process private attorneys can be used where applicable. States may also consider allocating resources within their state to assist in the foreclosure process in the state office or local office.

TOPIC 4

Selling REO property.

RECOMMENDATION

Regulations need to be revised to encourage timely disposition of REO properties. Proposed revisions include accepting offers for less than the appraised value, removing program-nonprogram designations and increasing the discount for a nonprofit to purchase REO. (Further analysis of these recommendations is necessary prior to revising the regulations and handbook.)

IMPLEMENTATION

Field offices may consider utilizing any of the above recommendations by submitting a request on a case by case basis through the State Director to the National Office requesting approval under the exception authority. Such requests must include details as to why it is in the Government's best interest to grant an exception and efforts that have been made to sell the REO property under existing procedures.

TOPIC 5

Marketing Strategies to sell REO properties.

RECOMMENDATION

All States should develop an REO marketing strategy for timely disposition of REO properties.

IMPLEMENTATION

State Offices should develop a marketing/strategic plan for selling REO property. Key elements of the plan may include:

- Sources to list REO properties (i.e., Internet sites, National Publications, etc).
- Utilizing State agencies and affordable housing groups such as HOME and HOPE.
- Linking up with other financing programs like HUD 203K.

Attachment 2

BEST PRACTICES FOR FORECLOSURE AVOIDANCE AND SALE OF REAL ESTATE OWNED (REO) PROPERTY

- Establish and maintain a list of interested parties who request to be notified when a sale is scheduled or the Agency acquires a property.

- Notify all interested parties of the Agency's minimum bid. Include the minimum bid amount in notices for the sale (i.e., newspaper, notice at the courthouse, etc.)

- Notify interested parties of the impending foreclosure after appropriate documents are filed making the action public information. If requested, after acceleration, an assignment of the security instruments can be considered. This has been especially useful in cases of a valueless lien where the borrower has filed and been discharged in bankruptcy.

- After acceleration, the local office performs a site inspection of the property. During the site visit, the local office employee has the opportunity to discuss sale of property with the borrower and listing the property for sale with a real estate agent. In addition, the local office discusses a Broker's Price Opinion (BPO) or market analysis with the borrower, asks if there are any other liens or judgments on the property, any equity they may realize, short sale and debt settlement processes and the impact on their credit history if a foreclosure were to proceed.

    The local office follows up with the borrower and real estate agent at least every 30 days regarding the marketing of the property (i.e., Has the home been shown? Were there any offers? Has it been advertised for sale?).

    The local office staff is pro-active in providing assistance to the borrower (i.e. Can we call your broker for you? Can we schedule an appointment for a BPO or market analysis? Can we refer our applicants to you or your broker? Can we put a picture of your home on our bulletin board for prospective purchasers to see?).

    If there has been no activity over the past 30 days, consider recommending price reductions (in consultation with the real estate agent) and re-advertise.

- Government Owned Real Estate (GORE) auction – In areas where there are a large number of government owned properties consideration should be given to having an auction in conjunction with other government agencies such as HUD and FHA. The State Office in Massachusetts worked in conjunction with HUD and FDIC to auction GORE properties in Massachusetts and Connecticut. The auction was originated and held by GSA.

- Sale of REO properties considering use of GRH loan program. The property is repaired prior to sale.

Attachment 3

SAMPLE LETTER TO BE USED BY FIELD OFFICE WHEN SERVICING SINGLE FAMILY HOUSING ACCOUNTS

Date:

Name
Address
City, State ZIP

Dear :

As you are aware, the servicing of your Rural Development loan is handled by the Centralized Servicing Center (CSC) in St. Louis, Missouri. All customers are to make payments to the address shown on their billing statement. Although the primary responsibility for servicing your loan is handled by CSC, the staff here at the local office would like to continue our interest in seeing you remain a successful homeowner and stand ready to assist you when needed.

Our records show that your account is past due in the amount of $___________and needs additional attention.

Please come to our office at on at am/pm, and we will assist you with a review of your account.

If you send the past due amount to our office or CSC prior to the appointment date, it will not be necessary for you to keep this appointment. Please return a copy of this letter to our office or phone this office at informing us of the date and amount of payment made if you sent the payment to the address shown on your billing statement.

Please be aware that if you are experiencing financial difficulties we may be able to assist you with additional subsidies and a moratorium, if you qualify, or the sale of your property.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants based on race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract), or because all or part of the applicant's income is derived from any public assistance program. Department of Agriculture regulations provide that no agency, officer or employee of the United States of Agriculture shall exclude from participation in, deny the benefits of, or subject to discrimination any person based on race, color, religion, sex, age, disability, or national origin under any program or activity administered by such agency, officer, or employee. The Fair Housing Act prohibits discrimination in real estate-related transactions, or in the terms and conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. If an applicant or borrower believes he or she has been discriminated against for any of these reasons, that person can write the Secretary of Agriculture, Washington D.C. 20250. Applicants also cannot be denied a loan because the applicant has in good faith exercised his or her rights under the Consumer Credit Protection Act. If an applicant believes he or she was denied a loan for this reason, the applicant should contact the Federal Trade Commission, Washington, D.C. 20580.

Sincerely,

January 14, 2000

TO: Selected State Directors*
Rural Development

ATTN: Rural Housing Chief

FROM: Eileen M. Fitzgerald
Associate Administrator
Rural Housing Service

SUBJECT: Underserved Areas and Colonias
Allocation of Funds and Teleconference

The Cranston-Gonzalez Affordable Housing Act requires RHS to set aside 5 percent of its Rural Housing funds for the "100 Underserved Areas and Colonias." These funds have been set aside as follows:

SFH Direct 502 loans:	$55,000,000
SFH Direct 504 loans:	$1,620,000
SFH Direct 504 grants:	$1,282,528*
MFH Direct 515 loans:	$5,719,104

*includes carryover funds

Teleconference

A one-hour teleconference will be held January 28, 2000 at 2:00 PM eastern time to discuss the underserved and colonias funds. State Directors and appropriate staff should plan to attend. Please call into the bridge number (202) 260-8174 five minutes before the start of the teleconference.

This document is being sent out by electronic mail by Rural Housing Service of Rural Development, January 14, 2000. Please notify appropriate persons.

EXPIRATION DATE: September 30, 2000

FILING INSTRUCTIONS:

Housing Programs

Fund Allocation for Underserved Areas

In determining how to allocate these funds, we considered the non-Metro populations in these counties. The following chart includes this information. The list of underserved counties may be found in RD Instruction 1940-L, Exhibit A, Attachment 2, Part I, pages 4 and 5.

STATE	Combined Non-Metro Population of Underserved Counties	Percentage
Alabama	23,439	1.92%
Alaska	19,208	1.57%
Arizona	137,101	11.22%
Hawaii (American Samoa)	25,381	2.08%
Kentucky	42,142	3.45%
New Mexico	60,005	4.91%
Puerto Rico	804,339	65.81%
South Dakota	33,840	2.77%
Texas	68,179	5.58%
West Pacific	8,537	0.70%
	1,222,171	100.00%

Allocation of MFH Funds for Underserved Areas

Funds available for Direct Section 515 loans total $5,719,104. Since no State would receive enough to make a loan if all States were allocated funds, this money will be held in a National Office set-aside. This funding is subject to the same limitations as other Section 515 new construction funds and will become available as other new construction funds become available. For Section 515 Rural Rental Housing, refer to the information in the Notice of Fund Availability dated December 21, 1999, FR Vol. 64 No.244.

States may receive up to $2.5 million in regular Section 515 funds. Set-asides and reserve funds are not included in this cap, however, no State will receive more than $2.5 million from this set-aside. No single loan request may exceed $1 million unless the State's average total development costs exceed the National average by 50 percent or more. At least one of the MFH projects should be in a colonia.

States should encourage applications in the areas of greatest need including colonias or counties or communities that contain allotted or Indian trust land.

If total requests in either category exceed available funds, selection will be made in the National Office by point score.

Projects in underserved counties that are located in a designated place, as defined in RD Instruction 1944-E, may also compete for regular Section 515 funds. The State must indicate on the list submitted to the National Office that the loan request is eligible for both the underserved counties set-aside and regular Section 515 funds.

Allocation of Single Family Housing Funds for Underserved Areas

The Single Family Housing funds are allocated based on the population figures above. We used a base allocation method to distribute these funds. The population figures lend themselves to dividing the allocation into 4 tiers. Tier 1 includes those States with less than 2 percent of the underserved county population. Tier 1 States received 100 percent of the base allocation. Tier 2 includes States over 2 percent but less than 10 percent. Tier 2 States received 200 percent of the base allocation. Tiers 3 and 4 are single states with 11.22 percent and 65.97 percent respectively. Tier 3 States received 300 percent of the base allocation and tier 4 600 percent. States are limited to 600 percent of the base allocation.

The funding levels for SFH programs can be found in Attachment A to this memorandum.

National Office Reserve and Colonias

SFH funds are allocated to the States for colonias. Each State with colonias will have an administrative allocation as listed in Attachment A. The unallocated funds will be held in the National Office and will be made available to States on request.

Requests for these funds should be made in the manner outlined in the SFH Attachment to RD Instruction 1940-L. Section 502 loan funds are not divided into low-income and very low-income categories in this allocation in order to give each State the maximum flexibility for both underserved areas and colonias.

Special Guidance for Colonias

A colonia is defined as any identifiable community in the States of Arizona, California, New Mexico, or Texas that:

1. is within 150 miles of the border between the US and Mexico,
2. does not include any standard metropolitan statistical area exceeding 1 million population,
3. is determined to be a colonia on the basis of objective criteria including:
    a. lack of potable water supply,
    b. lack of adequate sewerage systems, and
    c. lack of decent, safe, and sanitary housing; and
4. was in existence as a colonia before the enactment of the Cranston-Gonzalez National Affordable Housing Act.

Underserved areas include colonias as defined in the Housing Act. State Directors in the four States with colonias should make every effort to reach these areas. In accordance with RD Instruction 1940-L, Exhibit C, Paragraph III B, **States must give priority** for housing assistance in colonias as follows:

1. When the State did not obligate its allocation in a particular housing program during the previous 2 fiscal years (FYs), priority will be given to requests for assistance, in the affected program(s), from regularly allocated funds. This priority is in effect until an amount equal to 5 percent of the current FY program(s) allocation is obligated in colonias. This priority takes precedence over other processing priority methods. State Directors may wish to hold a reserve to accomplish this priority.

2. When the State did obligate its allocation in a particular housing program during the previous 2 FYs, priority will be given to requests for assistance, in that program(s), from underserved/colonias reserve funds. This priority is in effect until an amount equal to 5 percent of the current FY program(s) allocation is obligated in colonias. This priority takes precedence over other processing priority methods.

Pooling

Unused funds from this set-aside will be pooled on June 30, 2000 and made available to the counties listed on page 6 of RD Instruction 1940-L, Exhibit A, Attachment 2, Part I as eligible for pooled funds only. Funds remaining after August 13, 2000 will be pooled and made available with the other program funds.

Attachment

- Alabama, Alaska, Arizona,Hawaii, Kentucky, New Mexico, Puerto Rico, South Dakota, Texas, West Pacific.

Attachment A

FY 2000 Single Family Housing
Allocation of Funds for Underserved Counties and Colonias

Underserved	Section 502 Loans	Section 504 Loans	Section 504 Grants
Alabama	$1,000,000	$29,455	$23,319
Alaska	$1,000,000	$29,455	$23,319
Arizona	$3,000,000	$88,364	$69,956
Hawaii (American Samoa)	$2,000,000	$58,909	$46,637
Kentucky	$2,000,000	$58,909	$46,637
New Mexico	$2,000,000	$58,909	$46,637
Puerto Rico	$6,000,000	$176,727	$139,912
South Dakota	$2,000,000	$58,909	$46,637
Texas	$2,000,000	$58,909	$46,637
West Pacific	$1,000,000	$29,455	$23,319
Subtotal	$22,000,000	$648,000	$513,011
Underserved Reserve	$11,000,000	$324,000	$256,506
Colonias	$22,000,000	$648,000	$513,011
Total	$55,000,000	$1,620,000	$1,282,528

Colonias	Section 502 Loans	Section 504 Loans	Section 504 Grants
Arizona	$2,750,000	$81,000	$64,126
California	$2,750,000	$81,000	$64,126
New Mexico	$2,750,000	$81,000	$64,126
Texas	$2,750,000	$81,000	$64,126
Subtotal	$11,000,000	$324,000	$256,506
Reserve	$11,000,000	$324,000	$256,506
Total	$22,000,000	$648,000	$513,011

October 27, 1999

TO: Rural Development
State Directors

ATTENTION: Rural Housing Program Directors,
Program Loan Cost Coordinators and
Contract Program Managers

FROM: Eileen M. Fitzgerald
Acting Administrator
Rural Housing Service

SUBJECT: Revised FY 2000 Program Loan Cost Non-Recoverable Fund Allocation

The President has signed this year's Appropriation Act, allowing us to increase your current non-recoverable Program Loan Cost Expense (PLCE) fund allocation. All States' revised non-recoverable Program ("A") Account allocations are listed in Attachment 1. They supersede those provided in my memorandum of October 5, 1999. These funds are intended primarily for Single Family Housing (SFH) PLCEs. Additional non-recoverable funds intended for Multi-Family Housing (MFH) PLCEs will be allocated to States in about four months after specific States' needs for MFH appraisals become clear.

This year's non-recoverable PLCE funds are only authorized for infile credit bureau reports, MFH appraisals (after February 2000), MFH cost certifications, MFH market studies, SFH and MFH wage match, SFH bankruptcy fees, SFH mortgage releases, and SFH inventory property expenses. No other uses of non-recoverable PLCE funds are allowed without prior National Office permission.

All PLCE funds required in the Community Facilities Program are held in the National Office. Funding for Community Facilities PLCEs should be requested by completing and faxing Attachment 2 to Sharon Douglas at (202) 690-0471. To request MFH cost certifications, contact Steve Jorgensen at (202) 720-1620.

EXPIRATION DATE: October 31, 2000

FILING INSTRUCTIONS:
Administrative/Other Programs

You are again reminded that we will need to do all we can to stretch our limited non-recoverable funding this year. Please check the accuracy of the Program Authority Codes (PACs) and Action Codes assigned to your State's PLCEs. Make sure you use the PAC charts in the current RD Instruction 2024-A, Exhibit D, effective August 5, 1998, to verify the recoverability of each charge you submit. A State should not request additional funding in its account until it has obligated at least 90 percent of its current account funds.

If field staff have any questions concerning this memorandum, they should contact their State Office. If State Office officials have questions concerning this memorandum or qualify for additional funds, they should contact Carl Muhlbauer, Program Support Staff, at (202) 690-2141.

Attachments (2)

Attachment 1

PROGRAM LOAN COST EXPENSE FUNDS

Housing Programs (RHIF) - FY 2000

State/Territory		Program Account
Alabama		$13,773
Alaska		$1,774
Arizona		$6,483
Arkansas		$11,795
California		$20,081
Colorado		$3,731
Delaware		$5,957
Florida		$14,425
Georgia		$17,058
Hawaii		$2,657
Idaho		$3,583
Illinois		$9,939
Indiana		$9,779
Iowa		$7,016
Kansas		$4,841
Kentucky		$13,392
Louisiana		$12,612
Maine		$7,232
Massachusetts		$7,926
Michigan		$12,989
Minnesota		$6,971
Mississippi		$22,698
Missouri		$10,708
Montana		$2,583
Nebraska		$3,406
Nevada		$1,065
New Hampshire		$3,048
New Jersey		$4,858
New Mexico		$4,887
New York		$13,141
North Carolina		$23,222
North Dakota		$2,399
Ohio		$12,856
Oklahoma		$8,631
Oregon		$6,407
Pennsylvania		$16,024
Puerto Rico		$17,658

South Carolina		**$14,937**
South Dakota		**$2,744**
Tennessee		**$14,891**
Texas		**$24,907**
Utah		**$2,176**
Vermont		**$2,746**
Virgin Islands		**$1,012**
Virginia		**$14,830**
Washington		**$6,665**
West Virginia		**$7,809**
Wisconsin		**$7,967**
Wyoming		**$1,710**
Total		**$450,000**

Attachment 2

FISCAL YEAR PROGRAM LOAN COST EXPENSE
RURAL HOUSING SERVICE - COMMUNITY PROGRAMS

State:	___________________	Account:	_____________
Contact Person:	___________________	Fax No.:	_____________
Telephone Number:	___________________		

Program Authority Code (PAC):

______ (Loan Program)	______ (Program Activity)
______ (General Purpose)	______ (Detail Description)

Program Authority Required: ______ (Indicate Yes/No)
Recoverable _____ Non-recoverable _

Description of Request:
____
____

CONTRACTUAL		**NONCONTRACTUAL**	
Inspections	_____________	Advertising	_____________
Appraisals	_____________	Real Estate Taxes	_____________
Analysis and Audits	_____________	Insurance	
Information Services	_____________	(including flood)	_____________
Other Services	_____________	Other (Explain)	_____________
Maintenance & Management	_____________	Utilities *	
Repair/Improvement	_____________	**TOTAL**	_____________
Exclusive Broker	_____________		
Open Listing Broker	_____________	* Attach copies of vouchers and/or documents.	
Environmental	_____________		
Other Field Contracting	_____________		
Credit Bureau Reports	_____________		
TOTAL	_____________		

____
State Program Director

Concurrence: ___________________________________ Date: _____________
Associate Administrator/Deputy Administrator

TO BE COMPLETED BY NATIONAL OFFICE:

Account Balance after this obligation: _____________
Initials: _____________
Date: _____________

October 5, 1999

TO: Rural Development

State Directors

ATTENTION: Rural Housing Program Directors,
Program Loan Cost Coordinators and
Contract Program Managers

FROM: Eileen M. Fitzgerald
Acting Administrator
Rural Housing Service

SUBJECT: Program Loan Cost Expense Funds
FY 2000 Allocations and Requirements
Under the Credit Reform Act of 1990

The Office of Management and Budget (OMB) has approved this year's apportionment of **recoverable** Direct Loan Financing and Liquidating Program Loan Cost Expense (PLCE) funds for the Rural Housing Service (RHS). Your State's **annual** FY 2000 PLCE fund allocations for the Direct Loan Financing and Liquidating Accounts are provided in Attachment 1. The Direct Loan Financing allocations include your **annual** funding for recoverable mortgage credit bureau reports. Your State's recoverable fund allocations are based on the number of existing 502 Direct loans and 515 projects in your State.

All PLCE funds required in the Community Facilities Program are held in the National Office. Funding for Community Facilities PLCEs should be requested by completing and faxing Attachment 2 to Sharon Douglas at (202) 690-0471.

Attachment 1 also lists your State's Program Account ("A") <u>initial</u> allocation for FY 2000, under the current Continuing Resolution through October 21, 1999. We will advise you when additional funds in this Account have been authorized for your use. This year's non-recoverable PLCE funds are only authorized for infile credit bureau reports, Multi-Family Housing (MFH) appraisals, MFH cost certifications, MFH market studies, Single-Family Housing (SFH) and MFH wage match, SFH bankruptcy fees, SFH mortgage releases, and SFH inventory property expenses. No other uses of non-recoverable PLCE funds are allowed without prior National Office

EXPIRATION DATE:	FILING INSTRUCTIONS:
September 30, 2000	Administrative/Other Programs

permission. Your State's initial Program Account "A" fund allocation provided in Attachment 1 should be used for <u>emergency SFH needs only</u> during the Continuing Resolution. When additional "A" funds are authorized, we will be able to make a supplemental allocation for your State. Emergency requests for non-recoverable Program Account ("A") funds should be made to Carl Muhlbauer at (202) 690-2141. To request cost certifications, contact Steve Jorgensen at (202) 720-1620.

We will again need your cooperation in stretching our limited non-recoverable funding this year. Please check the accuracy of the Program Authority Codes (PACs) and Action Codes assigned to your State's PLCEs. Make sure you use the PAC charts in the current RD Instruction 2024-A, Exhibit D, effective August 5, 1998, to verify the recoverability of each charge you submit.

Additionally, in an attempt to reduce (non-recoverable) penalty interest costs and expedite the processing of all PLCE disbursements, the National Office has purchased ten Entrust Digital Signature software licensees for each state. This software affixes authorized signatures to purchase orders and invoices securely so that they can be used in their electronic format by the National Finance Center (NFC) for processing. Training for this software was completed two years ago, and a recent upgrade has also been completed. The Deputy Chief Financial Officer's office will work with the program areas in each state as needed to implement this software and electronically submit payment requests to NFC. Questions regarding this software should be directed to Tony Bainbridge at (314) 539-3525.

Under provisions of the Credit Reform Act of 1990, each State has three non-transferable accounts to manage. The Direct Loan Financing Account, also referred to as the "R" Account, is used to pay PLCEs that are chargeable to a direct/insured borrower, property account, or subsidy funds in which the loan was obligated in FY 1992 or subsequent years. Mortgage credit bureau reports are charged against "R" funds. The Liquidating Account, also referred to as the "L" Account, is used to pay PLCEs that are chargeable to a direct/insured or guaranteed borrower or property account in which the loan was obligated prior to FY 1992. The oldest outstanding loan provides the basis for determining which recoverable ("L" or "R") Account to charge in the case of multiple loans. The non-recoverable Program ("A") Account is to be used to pay non-recoverable PLCEs that are not chargeable to a borrower, property account, or subsidy funds for all Housing and Community Facility programs.

Funding for PLCEs paid from cash proceeds from a sale and recoverable guaranteed loan expenses are not allocated. If you need to process a recoverable guaranteed program loan cost expense, please contact the Guaranteed Loan Branch of the Finance Office at (314) 539-6661 for instructions.

Program officials are the only staff authorized to certify PLCE fund availability. Administrative officials (Contract Program Managers, Contract Specialists, Budget Analysts, etc.) are not authorized to certify PLCE fund availability. The Program Loan Cost Coordinator is responsible for monitoring obligations/disbursements of PLCE allocations by account to avoid violation of the Anti-Deficiency Act. Specifically, your State Office Housing Program section is responsible for determining and documenting how these funds will best be used to meet your program goals and objectives. It is also accountable for the proper use of these funds. State Offices are required to issue a State Administrative Notice identifying a methodology for controlling their funds, naming the program official designated to certify PLCE fund availability, and, if these funds are sub-allocated, distribute them by program and account. **A State should not request additional funding in either of its three PLCE accounts until it has <u>obligated</u> at least 90 percent of its current account funds.**

If field staff have any questions concerning this memorandum, they should contact their State Office. If State Office officials have questions concerning this memorandum, they should contact Carl Muhlbauer, Program Support Staff, at (202) 690-2141.

Attachments (2)

PROGRAM LOAN COST EXPENSE FUNDS

Housing Programs (RHIF) - FY 2000

Attachment 1

State/Territory	Allocations: Program Account	Direct Loan Financing Account	Liquidating Account
Alabama	$2,755	$689,263	$328,000
Alaska	$355	$47,355	$23,023
Arizona	$1,297	$284,933	$122,630
Arkansas	$2,359	$632,342	$318,739
California	$4,016	$874,344	$395,753
Colorado	$746	$148,191	$77,524
Delaware	$1,191	$249,626	$123,236
Florida	$2,885	$657,002	$309,936
Georgia	$3,412	$766,355	$354,425
Hawaii	$531	$101,625	$44,453
Idaho	$717	$165,286	$92,227
Illinois	$1,988	$351,362	$236,551
Indiana	$1,956	$328,733	$207,407
Iowa	$1,403	$298,790	$235,239
Kansas	$968	$176,523	$126,486
Kentucky	$2,678	$612,368	$292,935
Louisiana	$2,522	$627,165	$293,207
Maine	$1,446	$426,117	$208,654
Massachusetts	$1,585	$319,981	$141,867
Michigan	$2,598	$448,704	$274,260
Minnesota	$1,394	$223,446	$192,769
Mississippi	$4,540	$1,514,499	$649,283
Missouri	$2,142	$448,152	$298,720
Montana	$517	$102,504	$62,646
Nebraska	$681	$129,895	$90,882
Nevada	$213	$37,650	$24,919
New Hampshire	$610	$125,454	$60,746
New Jersey	$972	$235,907	$103,572
New Mexico	$977	$213,427	$94,420
New York	$2,628	$450,354	$238,832
North Carolina	$4,644	$1,094,012	$491,139
North Dakota	$480	$123,575	$86,638
Ohio	$2,571	$362,816	$195,718
Oklahoma	$1,726	$418,940	$199,370
Oregon	$1,281	$259,585	$127,341
Pennsylvania	$3,205	$488,224	$228,535
Puerto Rico	$3,532	$1,087,111	$415,351
South Carolina	$2,987	$810,027	$354,384
South Dakota	$549	$120,199	$126,748

Tennessee		**$2,978**	**$739,142**	**$335,115**
Texas		**$4,981**	**$893,246**	**$450,405**
Utah		**$435**	**$112,170**	**$54,533**
Vermont		**$549**	**$138,898**	**$72,039**
Virgin Islands		**$202**	**$49,763**	**$20,659**
Virginia		**$2,966**	**$737,092**	**$309,551**
Washington		**$1,333**	**$218,837**	**$129,638**
West Virginia		**$1,562**	**$344,007**	**$166,355**
Wisconsin		**$1,593**	**$235,219**	**$174,354**
Wyoming		**$342**	**$79,781**	**$38,785**
Total		**$90,000**	**$20,000,000**	**$10,000,000**

Attachment 2

FISCAL YEAR PROGRAM LOAN COST EXPENSE
RURAL HOUSING SERVICE - COMMUNITY PROGRAMS

State: ___________________ Account: _____________
Contact Person: ___________________ Fax No.: _____________
Telephone Number: ___________________

Program Authority Code (PAC):
______ (Loan Program) ______ (Program Activity)
______ (General Purpose) ______ (Detail Description)

Program Authority Required: ______ (Indicate Yes/No)
Recoverable _____ Non-recoverable _

Description of Request:
____
____

CONTRACTUAL

Inspections	_____________
Appraisals	_____________
Analysis and Audits	_____________
Information Services	_____________
Other Services	_____________
Maintenance & Management	_____________
Repair/Improvement	_____________
Exclusive Broker	_____________
Open Listing Broker	_____________
Environmental	_____________
Other Field Contracting	_____________
Credit Bureau Reports	_____________
TOTAL	_____________

NONCONTRACTUAL

Advertising	_____________
Real Estate Taxes	_____________
Insurance (including flood)	_____________
Other (Explain)	_____________
Utilities *	
TOTAL	_____________

* Attach copies of vouchers and/or documents.

____
State Program Director

Concurrence: ___________________________________ Date: _____________
Associate Administrator/Deputy Administrator

TO BE COMPLETED BY NATIONAL OFFICE:
Account Balance after this obligation: _____________
Initials: _____________
Date: _____________

September 10, 1999

TO:	State Directors, Rural Development Managers, and Community Development Managers
ATTN:	RH Program Chiefs
FROM:	Eileen M. Fitzgerald Acting Administrator Rural Housing Service
SUBJECT:	Single Family Housing First Year Delinquency Section 502 Direct Loans

Helping our customers to become successful homeowners is one of the benchmarks of the single family housing (SFH) program. To help ensure this goal, the servicing of accounts in their first year is extremely critical. For this reason, the primary responsibility for servicing loans during their first twelve months lies with the field office that originated the loan. The Centralized Servicing Center (CSC) shares in this responsibility; however, it is critical for our customers to recognize that the local field office still has a vested interest in their success and will provide that critical and immediate supervision.

Historically, the first year delinquency rate has fluctuated widely in the past five fiscal years. The rate has varied from a low point of 1.8 percent in September 1994 to a high of 20.3 percent in September 1997. As of September 1, 1999, the first year delinquency rate was 5.7 percent (see Attachment A). In an effort to address this issue, the Single Family Housing Direct Loan Division (SFHDLD) formed a team of field office employees who conducted a file review of first year loans (including new construction, assumptions, credit sales, leveraged loans, etc.) to determine reasons for first year delinquencies. Over 200 first year borrower case files (both current and delinquent) were reviewed earlier this Fiscal Year, results were tabulated and findings were discussed with senior management officials. Concurrently, the Foreclosure Avoidance Task Force which evolved from the

EXPIRATION DATE: September 30, 2000

FILING INSTRUCTIONS:
Housing Programs

Servicing Partnership Team developed a list of concerns, several of which involve loan-making issues and first year delinquency. Therefore, this memorandum addresses the combined concerns from both the SFHDLD review team and the Task Force - namely the overall underwriting process, new loan set up, homebuyer education/counseling, personal contact with borrowers, and borrower case file administration.

Based on the findings from both of these initiatives, we recognize the need to develop and implement an all-inclusive training program for field office employees that addresses the basic fundamentals of sound loan-making. However, due to the magnitude of this initiative, it will likely take until late Fiscal Year 2000 to implement.

In the interim, this memorandum provides guidance/recommendations on managing and improving the first year delinquency. Within 30 days of publication of this memorandum, the National Office will schedule a teleconference with State Offices to discuss this memo and field office concerns. If you have any questions, please contact Marty Horwath, Senior Loan Specialist, SFHDLD, at (202) 720-1459 or e-mail at **mhorwath@rdmail.rural.usda.gov.**

A. Loan Underwriting Concerns:

- **Income -** not always documented, verified, or updated. Verification of Employment (VOEs) in excess of 90 days old at the time of loan closing, or household income and overtime not correctly computed. Also, income counted for repayment ability (i.e. child support) not verified.
- **Employment history -** many of the applicants lacked continuous employment.
- **Credit worthiness -** credit history reviews were poorly documented and Form RD 1944-61, "Credit History Worksheet," not always used. In cases where the applicant had no credit history, copies of canceled checks for utilities or other monthly obligations were not evident. Also, poor credit was waived with no documentation to support the waiver.
- **Prior housing expenses -** over forty percent had prior housing expenses less than the subsidized principal, interest, taxes, and insurance. Over twenty-five percent lacked landlord verifications or had no prior rental history, i.e. lived with friends or relatives and did not pay rent. Often times, borrower experienced "payment shock" when facing a house payment that was higher than the prior housing expenses.
- **Repayment ability -** some field staff lacked an understanding of repayment income and qualifying income. All debts were not verified or considered in ratios, including joint debts from an ex-spouse (i.e. canceled checks were not included as proof of debt payment by an ex-spouse.)
- **Leveraged loans -** leveraged loan payment (other lender's payment) were not always considered in debt ratios.

Recommendations:

A1. State Offices should ensure that the Executive Information System (EIS) and FOCUS reports are generated on a monthly basis and distributed to field offices. These are 2 excellent resources to use when identifying field offices that are contributing to high first year delinquencies. EIS users can "drill down" information to the servicing office level to identify offices with high first year delinquencies while the FOCUS reports (both the 580 Report and First Year Delinquency Reports) can identify specific delinquent borrowers within a given office. State Offices should print out both of these reports and distribute to field offices for review and follow up of delinquent accounts. Please see Attachment B for more detailed information on accessing and printing these reports.

A2. State Offices should ensure that diligent oversight is provided on all aspects of SFH loan-making. Therefore, on a quarterly basis in offices with a first year delinquency rate in excess of 5.7 percent (the National average) as of September 1,1999, a State Office designated Official will post-review 25% of the loans underwritten and approved during the previous quarter and will use Attachment C to document the findings for each of the files reviewed. These findings should be submitted to the State Office, RH Program Chief within 10 days after the end of the quarter. The RH Program Chief will monitor the first year delinquency within his/her respective State, with the assistance of the reports referenced in recommendation A1. The National Office will monitor first year delinquency on a monthly basis and will provide additional guidance to those States where a reduction in the delinquency rate to at least the National average does not occur within 6 months of issuance of this unnumbered letter.

B. New Loan Set-up and Administration Concerns:

- **Escrow/notification to the borrower -** borrowers not properly notified about changes to their payment (i.e. when escrow was corrected) which may have resulted in a delinquency.
- **Critical documents missing -** An inconsistent policy on mailing closing documents to the Centralized Servicing Center (CSC) [i.e., pre-Automated Clearing House (ACH) requirements versus post-ACH requirements] may have contributed to the delinquency rate on the part of the field office. Critical documents were missing in 13.8% of the files reviewed. This resulted in accounts not being audited by the CSC New Loans Branch in order to determine if new loans were "set up" properly in the FASTeller system.
- **Payment assistance activation -** A delay/failure in the activation of payment assistance was noted in 13.8% of the files reviewed.

- **Set up of assumptions and credit sales -** There were a total of 24 assumptions and 28 credit sales reviewed. Most had set up delays or activation problems (i.e. linking multiple loans, activating payment assistance, or implementing escrow) which contributed to delinquency.
- **Unapplied funds -** 7.9% of the loans reviewed had problems associated with unapplied funds. The reviewers were unable to determine why funds were not applied. Several accounts were being researched by CSC and were not resolved at the time of the study, but have now been concluded. In some cases problems were attributed to monies sent to CSC prior to the loans being activated.

Recommendations:

B1. The first year delinquency continues to improve with the recent software enhancements that include ACH/EFT and leveraged loan software, along with improvements in the accuracy of the set-up of accounts in field offices. We recognize that up until recently, a portion of the first year delinquency may be attributed to systems problems or inadequacies. However, field offices should review the Quality Assurance Report (QAR), EIS and FOCUS reports on a monthly basis and have their respective State Offices contact the CSC Field Office Support staff at (314) 206-2060 for assistance on problems associated with set up for escrow, assumptions, credit sales, and payment assistance activation.

B2. For delinquent first year borrowers, field offices should review the following 3 FASTeller screens:

- **RHCDS/LOAN INQUIRY** - to determine the correct amount of all loans needed to be current and to ensure that funds are not sitting in "unapplied."
- **DELINQUENT LOAN CONTACT** - displays the borrower's payment (note rate minus subsidy) and to ensure borrowers who are eligible to receive subsidy are noted as such.
- **DELINQUENT LOAN HISTORY** - references the contacts that have been made between CSC and the borrower, if any.

Field offices should have their respective State Offices contact the CSC Field Support Staff at (314) 206-2060 for assistance on accounts where problems are noted.

C. Personal Contact with Borrowers to Ensure Success:

- **Homebuyer Education -** with the exception of the Applicant Orientation Guide, most accounts had little or no documentation to show that homeownership counseling was provided to the borrower by the Agency or through an outside source prior to or after obtaining the loan.
- **Personal Contact/follow-up with First Year Borrowers -**in most cases, field offices provided little or no personal contact to borrowers after the loan was made.

Recommendation:

C1. The Agency should increase the use of homebuyer education assistance for applicants and borrowers, in locations where it is available and affordable. Therefore, field offices will identify homebuyer education programs in their areas, and where possible, develop a Memorandum of Understanding (MOU) to make programs available to applicants/borrowers. Field offices should encourage borrowers to participate in these pre-purchase and post-purchase programs to the extent they are accessible.

C2. To clarify the field office role in servicing first year loans, field offices will:

- obtain and document on the system an alternate contact name (person outside the household who will know how to contact the borrower), telephone number, and address at loan closing.
- send a "welcome letter" that reinforces expectations and confirms the field office and CSC roles.
- make initial contact with borrowers within 30 days of first payment due date (in person or via telephone) and (1) reinforce payment expectations; (2) confirm the field office and CSC roles in servicing.
- track payments of borrowers for 12 months:
    1. 10 days after due date, check to see if borrower has paid.
    2. if paid, no action is required.
    3. if not paid, but record indicates borrower has contacted CSC and made payment arrangements, no action is required.
    4. if not paid, and record shows no payment arrangement has been made with CSC, contact the borrower directly with a phone call to achieve a promise to pay.
    5. if a promise to pay is made, field offices should enter on Del/Loan/Contact screen.
    6. if the borrower indicates an inability to pay, the field office should counsel/assist the borrower in contacting CSC who is ultimately responsible for servicing the loan, and record the contact in the borrower record on the system.

D. Borrower Case File Concerns:

- **File Organization** - in many of the delinquent borrower case files, organization of the file was poor. Documents were difficult to locate, misfiled in wrong positions within the case file or on occasion, missing from the case file. In some instances, the reviewers were unable to determine what the field offices used to calculate median income, PITI or MOTI ratios or other information. Not all case files were in 8-Position folders.

Recommendation:

D1. State Offices should review RD Instruction 2033-A, "Records Management in Rural Development Field Offices," and Exhibit A to ensure that all field offices are adhering to case file organization and maintenance. A State Office designated Official should provide training where needed and do a periodic spot-check of files when visiting field offices and provide additional guidance to offices or individuals as necessary.

CONCLUSION:

The Agency recognizes the importance of improving the first year delinquency. In order to emphasize this goal, Single Family Housing will revise the Direct Single Family Housing handbooks to reflect the servicing of first year loans by field offices. By working together in this partnership, CSC and field offices help in making customers successful homeowners.

Attachments (Attachment A is not available on the Internet)

Attachment B

Executive Information System (EIS)

On a monthly basis, State Offices will access the EIS to obtain the first year delinquency rate within the State by servicing office and ensure field offices are receiving a copy. To retrieve this report, complete the following steps:

-Log into EIS.
-Choose Rural Development Program Applications.
-Click on icon labeled "Rural Housing Service, Single Family Housing."
-At RHS menu, select First Year Delinquency, Section 502, for National Totals.
-There is an option to select either Monthly Loan delinquent or Annual Loan Delinquent.
-Access your individual State, and you can drill down to print out totals by servicing office.

***Note: For EIS assistance, please contact Ann Finklang at 314-539-7155 or Vern Berkbigler at 314-539-7161.**

FOCUS - (1) DLOS First Year Delinquency Report and (2) DL 580 Report

These reports show the names of the borrowers and related information at the borrower level. The reports are system-generated ("canned") easily assessable from the FOCUS main menu screen under DLOS Origination and DLOS Servicing reports. To retrieve these reports:

(1) First Year Delinquency Report
-Log into FOCUS.
-Tab down to the DLOS Origination Reports (DLMGR)on the main menu and <enter> using the <enter> key on the numeric keypad.
-The next screen shows 4 FOCUS reports with First Year Delinquency as the third item.
-Tab down to First Year Delinquency and hit <enter>. All parameters are optional. Each field user is limited to access within their State. For a specific servicing office, enter 5 digit servicing office code only. For entire state, just press <enter>. Do not enter dates.
- Press PF3 key to exit back to main menu.

(2) DL 580 Report
-Log into FOCUS.
-Tab to DLOS Servicing Reports and <enter> using the <enter> key on the numeric pad.
-Press PF8 key to view Page 2 for the DLOS 580 reports.
-Tab to the left of the State reports desired and press <enter>.

-All parameters are optional. Each field user is limited to access within their State. For detailed reports, enter servicing office or county desired (3 digit code). Do not enter dates.
-Press PF3 to exit back to main menu.

****Note: For FOCUS assistance, please call your help desk or Julie Cole at 314-539-7153.** A FOCUS user ID with authority to access the DLOS FOCUS database is required. If needed, have your IRM request access from Security. Sample ad hoc TED FOCEXECs are also available on the 'AF0000.FOCEXEC.DATA' library for other DLOS reports. To view, copy INDEX and TED:TSO copy 'AF0000.FOCEXEC.DATA (INDX)' afuserid.FOCEXEC.DATA (INDX)'

Attachment C

Single Family Housing Oversight Review

Borrower's name: ______________________________

Account number: ______________________________

Date Loan was Obligated: ________________________

Date Loan was Activated in FASTeller: ______________

I. **CREDIT:**

Date(s) of credit report(s): ________________________

Does credit meet 7CFR 3550.53 (h) and HB-1-3550, Chapter 4, Section 3?
_____ (Yes) ___ (No). If not, explain.

Was Form RD 1944-61, "Credit History Worksheet" used to summarize credit history ?
If not, explain.

II. **RATIOS:**

PITI at Loan Closing ___________%

TD at Loan Closing: ___________%

Ratios completed in UniFi ________ (YES) _________ (NO). If not, explain.

Both ratios meet requirements in 7 CFR 3550.53 (g) and HB-1-3550, Chapter 7, Section 4? _____ (YES) ________ (NO). If not, explain.

*For leveraged loans, was the other lender's payment considered in both the PITI and TD ratios? ________ (YES) __________ (NO). If not, explain.

III. VERIFICATION/CALCULATION OF INCOME AND ASSETS:

Date(s) income and/or assets verified: _______________

Income meets 7 CFR 3550.53 (a), (g), and HB-1-3550, Chapter 4,
Sections 1 and 2? _________ (YES) _______ (NO). If not, explain.

IV. PAYMENT ASSISTANCE AGREEMENT:

Date of agreement: _______________

Completed in accordance with 7 CFR 3550.68 and HB-1, Chapter 7, Section 3?
_________ (YES) _________ (NO) If not, explain.

Date activated: ____________

Was agreement activated timely and properly? _________ (YES) ________ (NO).

If not explain.

EXECUTIVE SUMMARY

Brief Explanation of the Document: This memorandum summarizes the findings of first year delinquency file review conducted by SFHDLD in December 1998. It also incorporates guidance/recommendations from the former Foreclosure Avoidance Task Force on improving first year delinquency nationwide.

What is the Purpose of the Document: This memorandum will be discussed at the policy meeting in September in conjunction with a presentation and case study on Section 502 Direct loan underwriting. Field Offices need to have a copy of this memorandum prior to the meeting on September 13, 1999.

Why is the Action Necessary: This memorandum contains policy decisions on handling first year delinquency and need the Acting Administrator's concurrence.